



CALIFORNIA Economic Indicators

November–December 2004

Mixed Year-End News

A soft employment report is balanced by good construction activity.

■ REVIEW OF RECENT ECONOMIC DEVELOPMENTS

California received mixed economic news, as 2004 drew to a close. Nonfarm employment took an unexpected tumble. However, home sales and home construction were strong in November. Real estate prices appear to have stabilized, which may give the state's home affordability rate a chance to improve. Commercial construction was also strong.

Employment

The state received disappointing employment news in December. California's nonfarm payroll employment fell by 25,000 jobs, in contrast with the nation's gain of 157,000 jobs. This drop, though, is not necessarily indicative of general weakness, as two industries, retail trade and motion pictures were largely responsible for the drop. Outside of these losses, industry employment was essentially unchanged. The loss in December was also heightened by an upward revision of 10,000 jobs to the November estimate.

Retail employment pattern was unusual

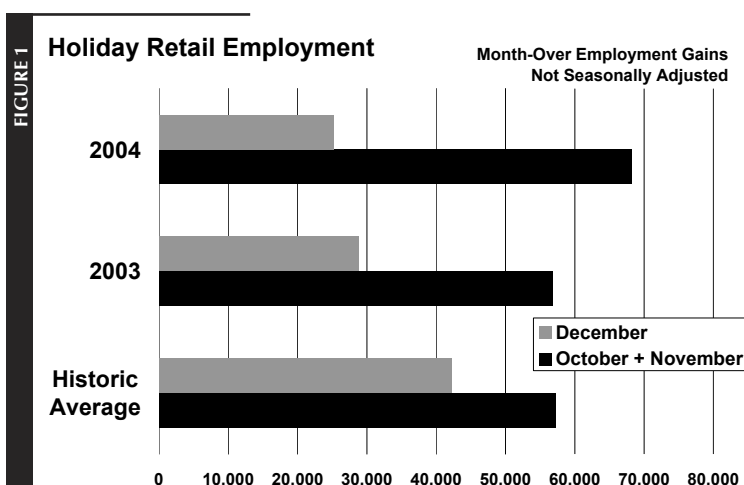
Retail hiring in December was slower than usual and probably reflecting a generally positive early outlook towards holiday sales by retailers that gave way to pessimism after disappointing post-Thanksgiving weekend sales. The pattern of seasonally unadjusted retail employment appears to bear this out. Retail employment gains in October and November were over 20 percent stronger than during the same months of 2003 and over 19 percent greater than their historical average (dating back to 1991). December's gain, however, was 12.5 percent below the December 2003 increase and over 40 percent below the typical growth.

The motion picture industry is typically a volatile industry and weakness in December followed strong gains in October and November. Even though it shed jobs in December, Motion Picture and Sound Recording employment (unadjusted) is up 2,100, or 1.5 percent, from a year ago.

Six of 11 major industry sectors gained jobs in December. Construction led the way with a gain of 5,300; not surprising given the recent strong construction activity. In addition, employment rose by 3,900 in Professional and Business Services; 2,200 in Financial Activities; 800 in Manufacturing; and 100 each in Education and Health Services, and Natural Resources and Mining.

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Employment losses were led by 16,400 in Trade, Transportation and Utilities, reflecting the slower than normal retail hiring. Information employment dropped 10,800, with Motion Picture and Sound Recording largely responsible. Leisure and Hospitality lost 4,200; Government, 4,200; and Other Services, 1,800.

From December 2003 to December 2004, California nonfarm payroll employment increased by 152,300, or 1.1 percent. Year-over-year employment gains during the final three months of 2004 averaged 1.0 percent, considerably stronger than the 0.6-percent average increase during the first nine months of the year and much better than the average 0.4 percent decline during 2003. Nonfarm payroll employment increased by 1.7 percent in the nation in the most recent 12 months.

From December 2003 to December 2004, nonfarm payroll jobs rose in eight major industry sectors. Employment was up by 65,400 in Professional and Business Services; 38,000 in Construction; 24,200 in Trade, Transportation and Utilities; 20,100 in Leisure and Hospitality; 16,600 in Educational and Health Services; 9,400 in Financial Activities; 3,300 in Manufacturing; and 300 in Natural Resources and Mining.

Employment over the year fell by 17,200 in Government, with the significant drops in both state and local government employment (exclusive of Indian Tribes). Other losses occurred in Information (5,400) and Other Services (2,400).

No change in the unemployment rate

The state's unemployment rate held steady at 5.8 percent in December (November's rate was originally reported at 5.7 percent). The national unemployment rate also was unchanged in December, at 5.4 percent. Over the past year, the state's unemployment rate has dropped 0.7 percentage point while the nation's fell only 0.3 of a point. The number of employed Californians dropped by 22,000, while unemployment fell by 10,000 in December.

Building Activity

Home building recovers in November

Home building bounced back in November. After dropping nearly 23 percent in October, home building permit issuances surged over 40 percent in November. The issuance of permits for 247,000 residential units, on a seasonally adjusted annual rate basis, was 31 percent above the pace set in November 2003. Single-family permits registered a 15.6-percent year-over-year gain, while the more volatile multi-family sector posted a 72.3-percent increase from a year ago. For the first 11 months of the year as a whole, residential construction permitting is up 6.3 percent from the same months of 2003.

A turnaround in commercial construction

November was also a good month for nonresidential building, as the value of permits issued increased smartly after four consecutive months of deceleration. A tremendous resurgence in office permits boosted November's construction pace 25 percent above its year-ago rate. During the first 11 months of 2004, office building permit issuances were up nearly 46 percent from the same months of 2003.

After sliding for several years, commercial construction is showing new signs of life in the San Francisco Bay area. With a substantial (over 130 percent) increase in industrial permitting, total nonresidential construction in the three largest Bay Area metropolitan areas was up nearly 7 percent during the first 11 months of 2004 from the corresponding months of 2003.

Real Estate

More stability in real estate

California's real estate markets appear to be finishing the year with prices that may have reached a plateau and a steady sales pace.

California's home prices regained some ground in November, after sliding in September and October. The median price of existing single-family homes sold in November, \$473,260, was a 2.9-percent increase from October and is over 23 percent higher than one year ago. This price remains within the range that the state's median has bounced along in since May 2004. From May through November the median price averaged \$467,000, increasing an average of only 0.6 percent each month.

Sales of single-family homes have shown similar stability. Even though home sales reached a seasonally adjusted annual rate of 653,000 units in November, the average pace of sales since August 2003 has been 627,000 units. The rate has varied little from this average in all but a couple of months.

■ ARE HOME PRICES VULNERABLE?

California's skyrocketing real estate prices have attracted considerable attention. Speculation abounds that the state's residential real estate is overpriced and that the potential exists for a painful correction. A significant decline in real estate values would have severe impacts on household balance sheets that could lead to a serious slowdown in consumption. Construction activity would also slow, dampening overall job growth and weaken the pace of the state's economic recovery.

For several years, rising home values have added fuel to consumer spending and residential construction. Nationally, rapid home price appreciation was the main reason for sustained consumer spending during the 2001 recession. Driven by historically low mortgage interest rates and an improving economy, the state's median home price rose over 21 percent during 2004. This was the third consecutive year of double-digit home price gains.

Affordability Suffers

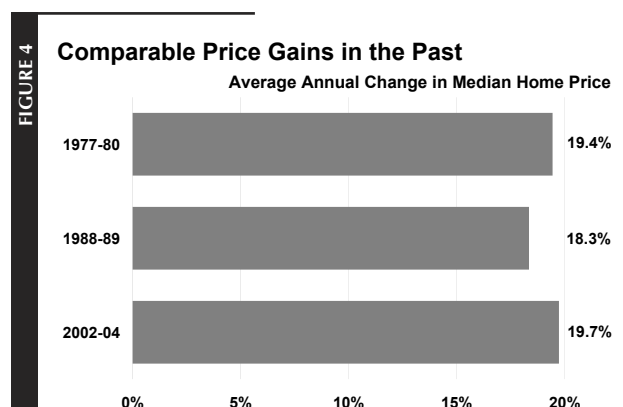
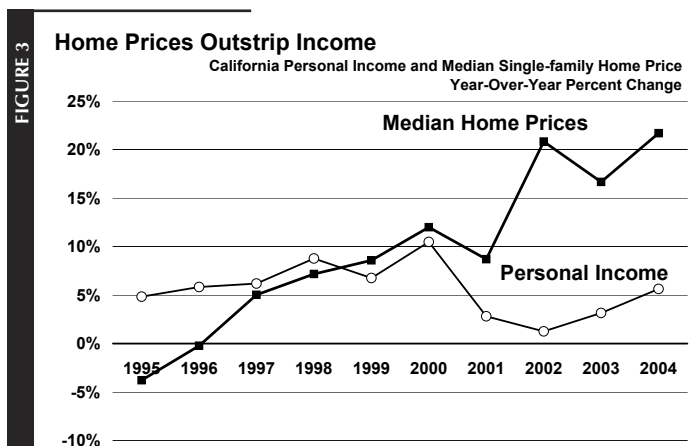
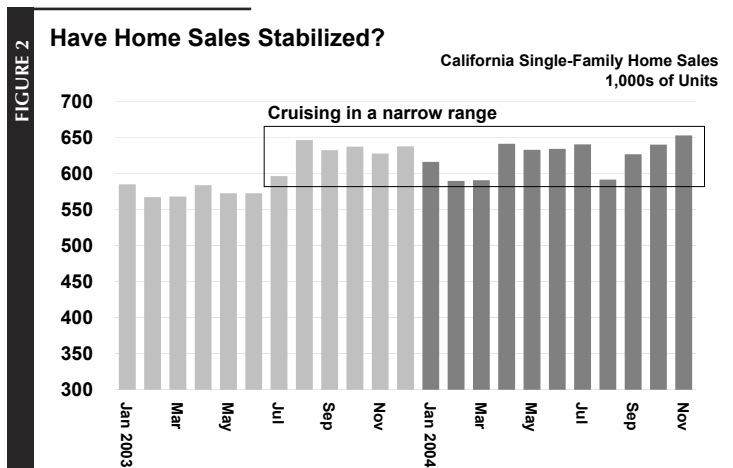
Rising home prices have outstripped income growth for the past six years, and by an especially wide margin during the last three. The California Association of Realtors' home affordability index—the percent of California households able to afford a median priced home—dipped to 19 percent in October, a level not seen since 1989. This is well below the nation's affordability index, which stood at 55 percent. A year ago the state's index stood at 25 percent.

The relationship between home prices and personal income has changed dramatically. During the first half of 2004, the state's median home price was 13 times average annual per capita personal income, the highest ratio according to statistics dating back to 1976. The ratio was 11 in 2003, 10 in 2002, 8 in 2001, and 7 in 2000. The average ratio from 1976 through 1999 was 7.7. Returning to this historical ratio would require a significant drop in home prices or a substantial increase in per capita income.

This Is Not The First Time

These developments have led to extensive speculation about the possibility of a housing price correction. Since the 1960s, there have been two other comparable instances of spiraling home prices. From 1977 to 1980, home prices galloped up at a similar double-digit pace. Strong price gains reemerged in at the beginning of 1988 and a double-digit year-over-year pace persisted until late 1989.

The rise in the median price was comparable during all three periods. Single-family home price gains averaged 19.4 percent from 1977 through 1980, 18.3 percent during 1988 and 1989, and 19.7 percent from 2002 through 2004.



Do these episodes shed any light on where California's current home prices are heading? While there are similarities between the current and previous price spirals, there are distinct differences. To compare them, one must consider each episode's unique economic landscape.

Is Affordability The Issue?

The most striking contrast between these episodes concerns affordability, which is calculated from home prices, income, and mortgage interest rates. Income growth and prevailing interest rates vary dramatically between these episodes. California personal income grew at a 13.5-percent annual rate on average during the first period, almost keeping pace with home prices. During 1988 and 1989, personal income grew by only 8.0 percent annually, losing more ground to home prices. Recent income gains have even more severely lagged behind home prices. During 2002 to 2004, income grew only 3.0 percent per year.

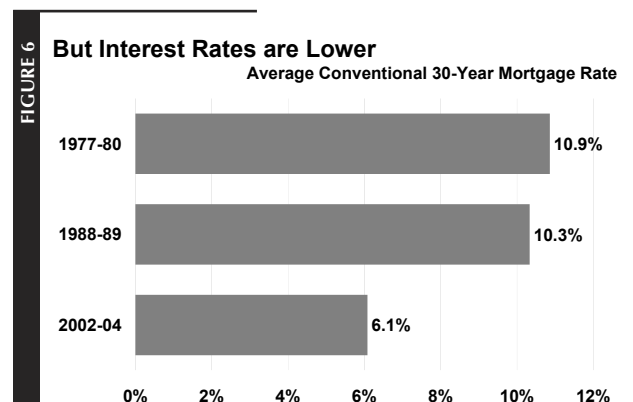
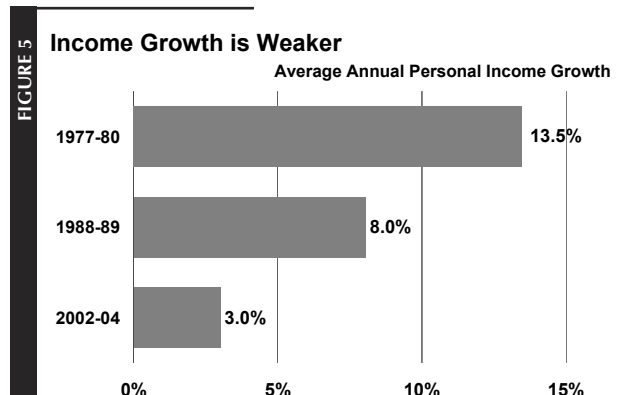
The interest rate environment was also strikingly different in each episode. A sharp increase interest rates and the ensuing recession brought the 1977-1980 price run up to an end. In a campaign to rein in rampant inflation, the Federal Reserve boosted interest rates dramatically during 1980 and 1981. Rates for 30-year conventional mortgages climbed from 10 percent at the end of 1979 to nearly 18 percent at the end of 1981. In the 1988 to 1990 period, mortgage rates were exceptionally stable and averaged only 10.3 percent. Even lower rates have prevailed recently. In response to the 2001 recession and the beginning of the war on terrorism, the Federal Reserve dramatically lowered interest rates in order to stimulate the economy. This led to historically low mortgage rates that averaged barely over 6 percent during the 2002 to 2004 period.

A one-percentage point drop in a 30-year mortgage rate can reduce monthly principal and interest payments by 10 percent or more. Adjusted for income and interest rates, the typical mortgage payment for a median priced home is now just as affordable, if not somewhat more, than during the earlier episodes. Annual principal and interest payments on a conventional 30-year mortgage for a median priced home in 2004 equaled 77 percent of California's per capita annual income.¹ This ratio reached its highest point during the first price spiral. In 1981, with mortgage rates rising to nearly 18 percent, the payment-to-per capita income ratio peaked at 119 percent. This ratio averaged 81 percent from 1988 to 1990. Thus, low mortgage rates have been a significant counter balance to the gap between home price gains and income growth.

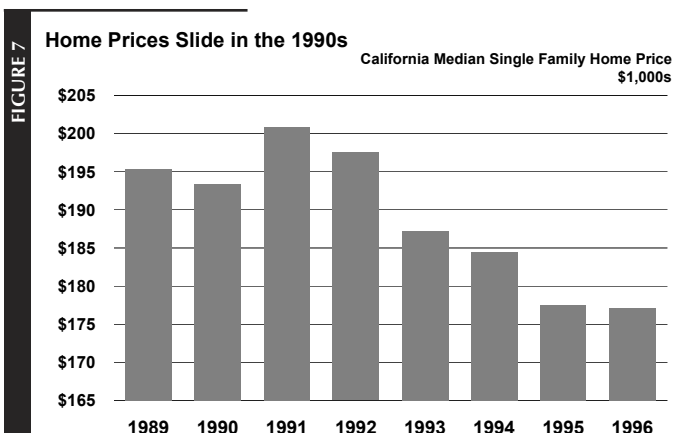
It's The Economy

A simple affordability measure is not an adequate indicator of home price movements. The health of the economy generally and the outlook for the future are more significant drivers. Most home purchases are financed by long-term mortgages that are secured by the property in question. This means that home prices are relatively resistant to downward adjustments. Severe price corrections usually are accompanied by substantial economic downturns.

The 1977-80 price spiral didn't immediately lead to a home price correction. Prices that had advanced over 19 percent in 1980, slowed considerably in 1981, but continued to rise throughout most of the year. A severe recession began during the final quarter of 1981, whereupon the state began to lose jobs and income growth slowed precipitously. At the same time, the state's median home price took a sizable hit, after which it rode along a bumpy path of alternating gains and losses through the end of 1984. Overall, the median single-family home price continued to rise, but only by 2 percent annually from 1982 to 1984.



¹ A loan with a 20 percent down payment made at the average prevailing interest rate.



a series of natural and man-made disasters. These factors resulted in a much longer and far deeper recession than in the rest of the nation.

The national recession officially began in the middle of 1990 and ended early in 1991. California's economy did not begin to recover until the beginning of 1994 and did not regain its pre-recession employment level until the later half of 1996. The state suffered its first recorded annual average drop in home prices in 1990. A resurgence in 1991 was followed by five years of deteriorating home values. Between 1989 and 1996, California homes lost, on average, over 9 percent of their value.

The 2001 Recession

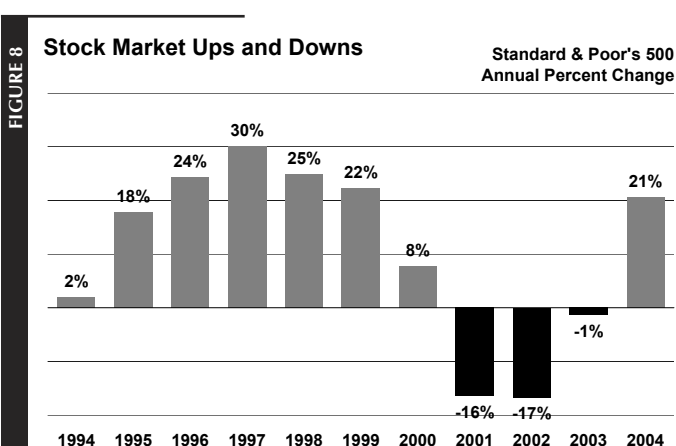
Why didn't the 2001 recession have the same home price-busting effect as the previous recessions? First, the recession was relatively mild and short-lived. It officially lasted only eight months. From its pre-recession peak to its lowest point, nonfarm employment fell just under 2 percent in California. The comparable peak-to-trough losses were nearly 3 percent during the 1981-82 recession and nearly 6 percent during the 1990s recession.

The Stock Market Factor

Second, the stock market played a much different role in the current episode. Recent history doesn't show a clear correlation between stock market performance and home prices. Since equity assets can be fairly easily exchanged for real estate assets, a rising stock market should, to some extent, support or boost home prices. On the other hand, real estate, given its long run stability, is also viewed as a "safe haven" when equity markets languish or retreat.

The record in California supports this ambiguity. Using the Standard and Poor's 500 stock index as a proxy for the stock market as a whole, it appears that until the start of the 1991 recession, both the stock market and California home prices moved in the same direction; generally upward, with home prices slightly outrunning equity markets. This correlation broke down in the early 1990s as the effect of overall economic troubles overwhelmed that of the stock market. California home prices suffered a long slide from 1991 through 1996, even though the stock market was heating up. Home prices began rising again in the late 1990s, fueled by both an expanding economy and by an unprecedented stock market boom. This relationship broke down again, though, with the market's crash in 2001. Despite unprecedented stock market losses in 2001 and 2002, home prices made substantial gains. This appears to support the "safe haven" hypothesis. The recovery of the market in 2003 then generated more wealth that helped boost home prices even more.

The 2001 recession did not stop the real estate market in its tracks. This recent real estate boom has been supported by a long stretch of historically low interest rates. It also followed an unprecedented stock market boom that, despite the subsequent bust, created a record amount of wealth that helped sustain home prices until a general recovery was underway.



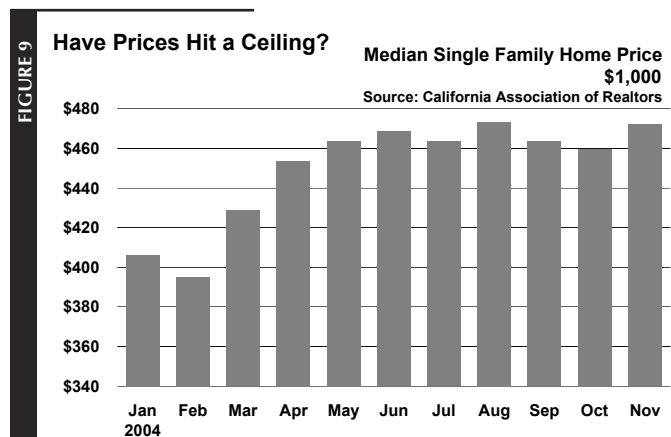
Another Downturn is Unlikely

The lesson of the first two episodes is that rising prices were only reversed by harsh economic downturns. The inflation-busting spike in interest rates in 1981 sparked a national recession that let the steam out of the housing market but did not lead to a drop in values. In 1991, it was a more severe recession and the transition from the Cold War economy to a peacetime economy that hit California especially hard and pushed the state's real estate market over the edge.

That the 2001 recession did not similarly trip up the housing market was probably the result of unusual stock market activity and the mildness of the recession. In contrast to the earlier consumer led recessions, this one was caused by a drop off in business investment following the excessive speculation that was part of the overheated stock market. Even though the stock market bubble burst in 2001, it still left behind tremendous capital gains. With equity markets in turmoil, real estate looked like a safer bet. This most likely kept home prices on the upswing through 2001 and 2002. A sharp stock market recovery in 2003 re-energized wealth creation, which added more fuel to home prices.

Based on this limited record, a severe home price correction in California appears unlikely for the foreseeable future. Unlike the early 1990s, the state is not facing a recession or an economic transformation. High technology industries that have fueled much of the state's growth in the recent years are expected to continue to improve and strengthen in upcoming years. Income and job growth are projected to improve over the next couple of years. Mortgage interest rates have remained stubbornly low, defying recent Federal Reserve rate increases thus far. And, absent an unexpected inflationary shock, mortgage rates should not rocket up as they did in 1981. It appears most likely that the state's housing market will mimic the relative price stability of the 1981-84 period.

This stability may already have arrived. California home prices seemed to hit a ceiling in the middle of 2004. The state's median home price varied little from an average of \$467,000 during the last nine months of the year. If prices remain in check, income and employment improvement will help home affordability. Furthermore, the lack of affordable housing has attracted renewed political attention that may lead to public policies that may relieve some of the state's home price pressures.



This is not to say that some price adjustments will not occur. Both of the previous price spirals were followed initially by two to three years of limited or stagnant home price growth. Rather than going over a cliff, home prices may just be heading down a bumpy road for a while.

Select Indicators

	2003	2004				Year-Over % Change
	Dec	Sep	Oct	Nov	Dec	
EMPLOYMENT (Seasonally adjusted)						
Civilian employment (000)	16,347	16,648	16,718	16,745	16,723	2.3%
Unemployment (000)	1,140	1,060	1,033	1,032	1,022	-10.3%
Unemployment rate	6.5	6.0	5.8	5.8	5.8	--
Nonagricultural wage and salary employment (000) a/	14,416.6	14,533.2	14,575.6	14,593.9	14,568.9	1.1%
Goods-producing industries	2,348.5	2,375.8	2,379.8	2,383.9	2,390.1	1.8%
Natural resources and mining	21.4	22.1	21.9	21.6	21.7	1.4%
Construction	799.6	825.2	827.5	832.3	837.6	4.8%
Manufacturing	1,527.5	1,528.5	1,530.4	1,530.0	1,530.8	0.2%
Service-providing industries	12,068.1	12,157.4	12,195.8	12,210.0	12,178.8	0.9%
Trade, transportation, and utilities	2,724.5	2,745.9	2,755.0	2,765.1	2,748.7	0.9%
Information	464.7	451.2	461.8	470.1	459.3	-1.2%
Financial activities	896.8	902.4	902.9	904.0	906.2	1.0%
Professional and business services	2,133.9	2,188.2	2,203.0	2,195.4	2,199.3	3.1%
Educational and health services	1,554.6	1,563.3	1,568.8	1,571.1	1,571.2	1.1%
Leisure and hospitality	1,398.4	1,414.6	1,421.2	1,422.7	1,418.5	1.4%
Other services	503.0	501.7	501.5	502.4	500.6	-0.5%
Government	2,392.2	2,390.1	2,381.6	2,379.2	2,375.0	-0.7%
High-technology industries b/	862.6	861.1	863.3	864.8	865.9	0.4%
Computer and electronic products manufacturing	320.5	320.9	320.8	320.7	321.9	0.4%
Aerospace products and parts manufacturing	72.4	75.2	75.4	76.0	76.4	5.5%
Software publishers	43.3	42.2	42.1	42.2	42.2	-2.5%
Telecommunications	118.1	113.1	113.7	113.9	112.9	-4.4%
Internet service providers	48.3	48.6	48.5	48.4	48.4	0.2%
Computer systems design	165.0	163.3	164.5	164.9	164.5	-0.3%
Scientific research and development	95.0	97.8	98.3	98.7	99.6	4.8%
HOURS AND EARNINGS IN MANUFACTURING (Not seasonally adjusted)						
Average weekly hours	40.1	39.6	39.9	40.2	40.4	0.7%
Average weekly earnings	\$611.93	\$610.63	\$615.26	\$622.70	\$630.64	3.1%
Average hourly earnings	\$15.26	\$15.42	\$15.42	\$15.49	\$15.61	2.3%
CONSUMER PRICE INDEX (1982-84=100) (Not seasonally adjusted)						
All Urban Consumers Series						
California Average	190.1	n.a.	198.0	n.a.	197.0	3.6%
San Francisco CMSA	195.3	n.a.	200.3	n.a.	199.5	2.2%
Los Angeles CMSA	187.0	194.5	196.3	196.9	195.2	4.4%
Urban Wage Earners and Clerical Workers Series						
California Average	183.3	n.a.	191.6	n.a.	190.5	3.9%
San Francisco CMSA	191.1	n.a.	196.4	n.a.	195.9	2.5%
Los Angeles CMSA	180.2	187.8	189.8	190.3	188.5	4.6%
CONSTRUCTION						
Private residential housing units authorized (000) c/	195	228	175	256	216	10.6%
Single units	149	166	127	164	141	-5.2%
Multiple units	46	61	48	92	74	61.6%
Residential building authorized valuation (millions) d/	\$40,248	\$47,679	\$37,903	\$51,493	\$42,717	6.1%
Nonresidential building authorized valuation (millions) d/	\$13,937	\$15,653	\$14,246	\$16,139	\$15,684	12.5%
Nonresidential building authorized valuation (millions) e/	1,113	1,379	1,308	1,173	1,255	12.7%
Commercial	345	430	370	383	455	31.7%
Industrial	116	121	185	116	114	-1.8%
Other	251	300	243	240	224	-11.0%
Alterations and additions	401	527	510	434	462	15.4%
AUTO SALES (Seasonally adjusted)						
New auto registrations (number)	153,936	153,497	n.a.	n.a.	n.a.	

a/ The wage and salary employment information is based on the new North American Industry Classification System (NAICS).

b/ Not seasonally adjusted

c/ Seasonally adjusted at annual rate

d/ Seasonally adjusted

e/ Not seasonally adjusted

n.a. Not available

Select Indicators *Continued*

VACANCY RATES FOR FOURTH QUARTER 2004 (Percent)

	Office Downtown		Office Suburban		Office Total		Industrial	
	4Q04	4Q03	4Q04	4Q03	4Q04	4Q03	4Q04	4Q03
Northern and Central California:								
Oakland	14.9	16.8	16.7	17.3	16.3	17.2	n.a.	n.a.
Sacramento	13.8	12.0	14.0	13.2	13.9	12.9	15.9	13.2
San Francisco	15.2	18.5	23.0	25.1	17.6	20.6	13.8	13.1
San Jose	18.4	17.3	18.3	19.9	18.4	19.3	n.a.	n.a.
Southern California:								
Los Angeles Metro	16.7	17.4	12.7	14.7	13.4	15.2	8.1	9.0
Orange County	n.a.	n.a.	10.4	13.5	10.4	13.5	8.7	9.9
San Diego	9.5	10.7	9.9	11.7	9.8	11.5	11.1	11.2
Ventura County	n.a.	n.a.	9.0	11.1	9.0	11.1	n.a.	n.a.
National Average	14.2	14.5	17.1	18.0	16.0	16.7	11.0	11.6

FOREIGN TRADE THROUGH

SALES OF EXISTING SINGLE-FAMILY HOMES				CALIFORNIA PORTS		DOD PRIME CONTRACTS a/	
		Median Price	Units (SAAR)	Exports (\$ millions)	Imports (\$ millions)	\$ millions	% of U.S.
2001	Jan	\$244,110	502,800	\$12,284	\$19,173	1981-82	\$22,685 21.8%
	Feb	241,690	486,370	11,595	16,201	1982-83	26,387 22.2%
	Mar	257,550	518,410	12,390	19,475	1983-84	28,520 23.0%
	Apr	255,310	495,390	10,492	17,624	1984-85	29,115 20.8%
	May	255,860	505,590	10,948	16,885	1985-86	27,738 20.4%
	Jun	266,930	526,570	10,721	18,274	1986-87	24,515 18.4%
	Jul	267,520	503,030	9,890	18,206	1987-88	23,458 18.7%
	Aug	282,420	571,070	10,288	18,277	1988-89	23,125 19.3%
	Sep	275,620	475,380	9,634	17,585	1989-90	22,312 18.4%
	Oct	263,020	494,920	10,038	19,532	1990-91	24,265 19.5%
	Nov	270,210	493,870	9,315	17,184	1991-92	23,843 21.2%
	Dec	281,330	474,490	9,659	15,525	1992-93	22,952 20.1%
2002	Jan	\$287,080	584,250	\$8,688	\$15,517	1993-94	22,573 20.5%
	Feb	294,870	610,380	8,429	15,768	1994-95	18,277 16.8%
	Mar	305,840	586,230	9,945	16,318	1995-96	18,230 16.7%
	Apr	317,120	643,030	9,274	17,807	1996-97	18,477 17.3%
	May	319,590	620,300	9,814	17,568	1997-98	17,401 15.9%
	Jun	324,640	533,840	9,984	18,988	1998-99	17,372 15.1%
	Jul	321,900	540,800	9,335	18,998	1999-00	18,100 14.7%
	Aug	334,270	562,780	9,948	19,686	2000-01	19,939 14.7%
	Sep	322,450	493,800	9,286	19,478	2001-02	23,816 15.0%
	Oct	324,670	579,240	8,794	18,753	2002-03	28,681 15.0%
	Nov	328,440	542,120	9,046	20,522	2003-04	27,875 13.7%
	Dec	338,840	573,790	8,797	19,060		
2003	Jan	\$336,210	584,600	\$8,408	\$17,588		
	Feb	326,640	566,890	8,423	16,359		
	Mar	352,780	567,610	9,784	18,789		
	Apr	364,040	583,330	9,158	19,151		
	May	367,630	572,260	9,090	18,537		
	Jun	374,540	572,130	9,743	19,774		
	Jul	381,940	595,860	9,604	20,743		
	Aug	400,020	645,720	9,626	19,846		
	Sep	384,690	631,880	8,968	21,060		
	Oct	379,120	636,690	10,341	23,021		
	Nov	384,470	627,190	9,969	21,320		
	Dec	401,720	637,080	10,437	20,528		
2004	Jan	\$406,220	615,660	\$9,062	\$19,996		
	Feb	395,060	589,220	9,536	18,011		
	Mar	428,570	590,220	11,420	22,589		
	Apr	453,590	640,710	10,249	21,722		
	May	463,690	632,380	10,460	21,760		
	Jun	468,620	633,670	10,481	23,971		
	Jul	463,540	639,910	10,388	24,162		
	Aug	473,360	591,150	10,118	24,127		
	Sep	463,620	626,220	10,446	23,974		
	Oct	459,800	639,570	10,460	25,279		
	Nov	471,980	652,340	9,789	25,769		
	Dec	474,480	645,860	n.a.	n.a.		

a/ U.S. fiscal year: October through September

n.a. Not available

Leading Indicators/^a

		Manufacturing		Unemployment	New	Housing Unit
		Overtime	Average	Insurance	Business	Authorizations
		<u>Hours</u>	<u>Weekly Hours</u>	<u>Initial Claims</u>	<u>Incorporations</u>	<u>(Thousands)</u>
2001	Jan	4.1	39.9	47,065	7,556	200.7
	Feb	4.2	40.2	51,343	6,436	136.3
	Mar	4.0	39.9	53,726	6,574	144.5
	Apr	3.5	39.5	53,017	6,239	153.3
	May	3.8	39.7	56,205	6,757	152.5
	Jun	3.8	39.3	55,053	6,425	147.6
	Jul	3.8	39.5	55,764	6,532	130.3
	Aug	3.9	39.6	57,542	7,243	160.8
	Sep	3.9	39.5	59,829	5,893	114.7
	Oct	3.7	39.3	64,090	7,002	139.7
	Nov	3.6	39.0	57,914	7,315	142.1
	Dec	3.7	39.3	47,557	6,912	163.6
2002	Jan	3.8	39.0	66,867	7,283	155.4
	Feb	4.0	39.5	55,653	6,867	162.1
	Mar	4.1	40.0	60,564	7,381	144.4
	Apr	4.1	40.0	64,132	7,348	163.0
	May	4.1	39.7	60,539	8,597	157.1
	Jun	4.1	39.9	59,679	6,988	149.7
	Jul	4.0	39.3	63,104	7,252	181.5
	Aug	4.0	39.8	61,589	7,552	166.9
	Sep	3.9	39.8	61,305	7,285	184.9
	Oct	3.7	39.5	63,105	8,053	203.3
	Nov	3.9	39.6	58,190	7,545	191.1
	Dec	3.9	39.7	58,106	7,736	151.9
2003	Jan	3.9	39.7	60,938	7,430	193.0
	Feb	4.0	39.9	58,324	8,677	249.9
	Mar	3.7	39.8	58,847	7,242	183.2
	Apr	3.7	39.8	65,902	7,875	188.9
	May	3.8	39.9	60,158	7,864	210.3
	Jun	3.7	39.9	61,883	7,873	177.6
	Jul	3.9	39.5	61,862	8,026	200.0
	Aug	3.8	39.5	58,148	7,045	178.6
	Sep	3.9	39.4	58,124	8,267	194.7
	Oct	3.7	39.5	60,267	7,952	210.2
	Nov	4.1	40.1	53,659	7,474	188.9
	Dec	3.9	39.4	50,224	8,424	194.9
2004	Jan	4.0	40.1	50,745	8,086	196.4
	Feb	4.2	40.3	49,833	8,715	206.1
	Mar	4.2	40.3	48,368	8,573	226.7
	Apr	4.5	40.1	51,481	8,428	201.6
	May	4.6	40.5	45,693	8,291	199.3
	Jun	4.2	39.9	50,863	8,905	222.1
	Jul	4.5	40.2	49,736	8,376	202.5
	Aug	4.2	40.1	48,017	8,310	207.0
	Sep	4.0	39.2	47,497	8,571	227.7
	Oct	4.1	39.6	46,314	7,704	175.5
	Nov	4.4	39.8	46,074	8,979	255.7
	Dec	4.3	39.7	47,379	9,263	215.6

a/ Seasonally adjusted by the California Department of Finance.

Coincident Indicators/^a

		Nonagricultural Employment (Thousands)	Manufacturing Employment (Thousands)	Unemployment Rate (Percent)	Unemployment Avg. Weeks Claimed (Thousands)
2001	Jan	14,715	1,875	4.6	354
	Feb	14,720	1,866	4.7	356
	Mar	14,728	1,855	4.8	364
	Apr	14,666	1,831	4.9	386
	May	14,650	1,812	5.1	413
	Jun	14,641	1,797	5.2	421
	Jul	14,574	1,778	5.3	445
	Aug	14,582	1,761	5.6	471
	Sep	14,525	1,740	5.7	478
	Oct	14,512	1,723	6.0	524
	Nov	14,476	1,704	6.2	512
	Dec	14,449	1,689	6.3	520
2002	Jan	14,433	1,675	6.5	511
	Feb	14,451	1,667	6.6	538
	Mar	14,463	1,662	6.7	527
	Apr	14,466	1,656	6.7	541
	May	14,491	1,652	6.6	553
	Jun	14,470	1,645	6.7	542
	Jul	14,455	1,637	6.7	549
	Aug	14,475	1,629	6.7	530
	Sep	14,462	1,622	6.7	541
	Oct	14,479	1,615	6.7	541
	Nov	14,488	1,605	6.8	509
	Dec	14,462	1,594	6.8	517
2003	Jan	14,430	1,586	6.8	509
	Feb	14,418	1,575	6.8	514
	Mar	14,390	1,564	6.8	511
	Apr	14,399	1,559	6.8	571
	May	14,391	1,550	6.8	540
	Jun	14,389	1,541	6.8	552
	Jul	14,387	1,532	6.9	555
	Aug	14,411	1,528	6.8	535
	Sep	14,408	1,525	6.7	539
	Oct	14,450	1,530	6.7	520
	Nov	14,437	1,529	6.6	509
	Dec	14,417	1,528	6.5	510
2004	Jan	14,443	1,526	6.2	446
	Feb	14,440	1,527	6.3	445
	Mar	14,462	1,526	6.6	434
	Apr	14,478	1,528	6.2	442
	May	14,511	1,529	6.3	413
	Jun	14,530	1,531	6.3	452
	Jul	14,521	1,534	6.2	406
	Aug	14,525	1,531	5.9	425
	Sep	14,533	1,529	6.0	429
	Oct	14,576	1,530	5.8	393
	Nov	14,594	1,530	5.8	401
	Dec	14,569	1,531	5.8	404
		Personal Income (\$ millions)	Total Wages & Salaries (\$ millions)	Taxable Sales (\$ millions)	
2001	Qtr I	\$1,153,563	\$661,546	\$111,989	
	Qtr II	1,139,669	650,479	111,275	
	Qtr III	1,125,898	637,461	108,517	
	Qtr IV	1,120,405	632,752	109,442	
2002	Qtr I	\$1,133,441	\$637,434	\$108,528	
	Qtr II	1,148,301	641,008	109,986	
	Qtr III	1,153,479	641,928	111,384	
	Qtr IV	1,161,353	647,397	110,449	
2003	Qtr I	\$1,161,968	\$645,093	\$112,286	
	Qtr II	1,175,472	652,247	113,415	
	Qtr III	1,190,584	661,284	117,636	
	Qtr IV	1,213,183	674,618	116,022	
2004	Qtr I	\$1,221,673	\$679,545	\$119,072	
	Qtr II	1,242,847	688,005	120,294	

a/ Seasonally adjusted by the California Department of Finance with the exception of the nonagricultural and manufacturing employment and the unemployment rate which are seasonally adjusted by the California Employment Development Department.

■ ECONOMIC INDICATOR CHARTS

Series classification as leading or coincident indicators generally follows that established by the National Bureau of Economic Research. The exceptions to this are manufacturing employment and taxable sales. These series are discussed in the technical note below.

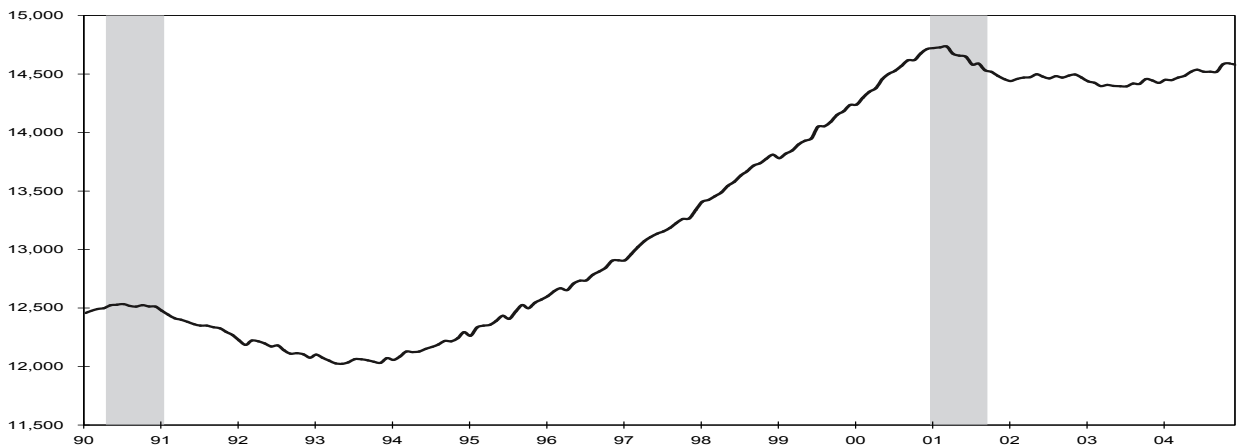
Whenever appropriate, data used in the charts have been seasonally adjusted. The method of seasonal adjustment is the X-12 Arima program. Persons interested in a detailed description of this method are referred to the U.S. Census Bureau's Statistical Research Division.

Under the X-12 Arima method, the addition of new data points changes historical seasonal factors. To avoid monthly data changes in the California Economic Indicators it is necessary to "freeze" the seasonally adjusted data through the past year and manually compute current year values from the projected seasonal factors. Thus historical revisions will be incorporated annually.

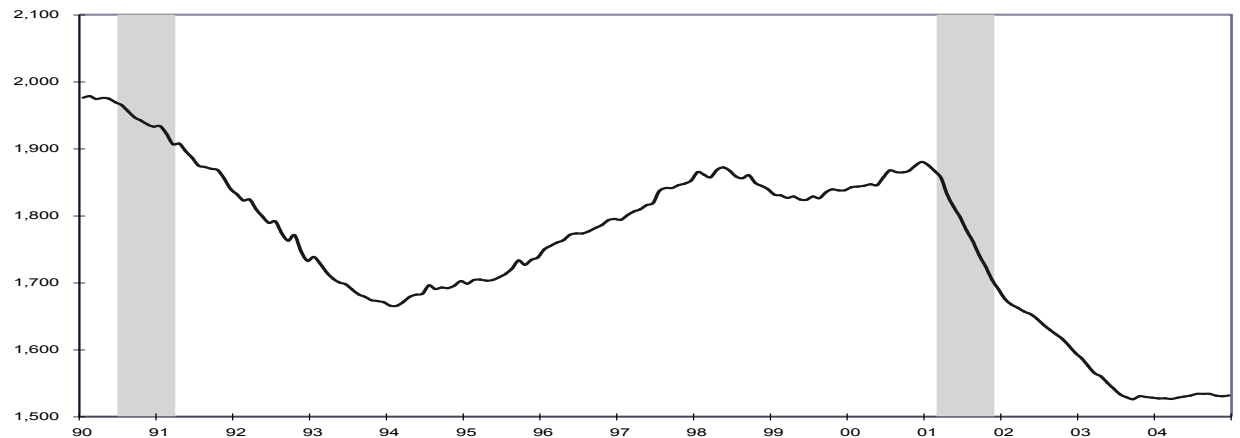
This series is an addition to the NBER indicator list. It is used here because it appears to show cyclical fluctuations clearly and extends the limited number of series presently available for the State.

Taxable sales are used here as a proxy for retail trade. Data on the latter are not available for California prior to 1964. The taxable series includes sales by both retail and wholesale establishments, and is, therefore, a broad indicator of business activity. It has been classified as a coincident indicator on the basis of fluctuations in the series since 1950. The other indicators shown are for general interest only. They are not directly related to the cyclical indicator series, but are of interest to persons looking at overall economic developments.

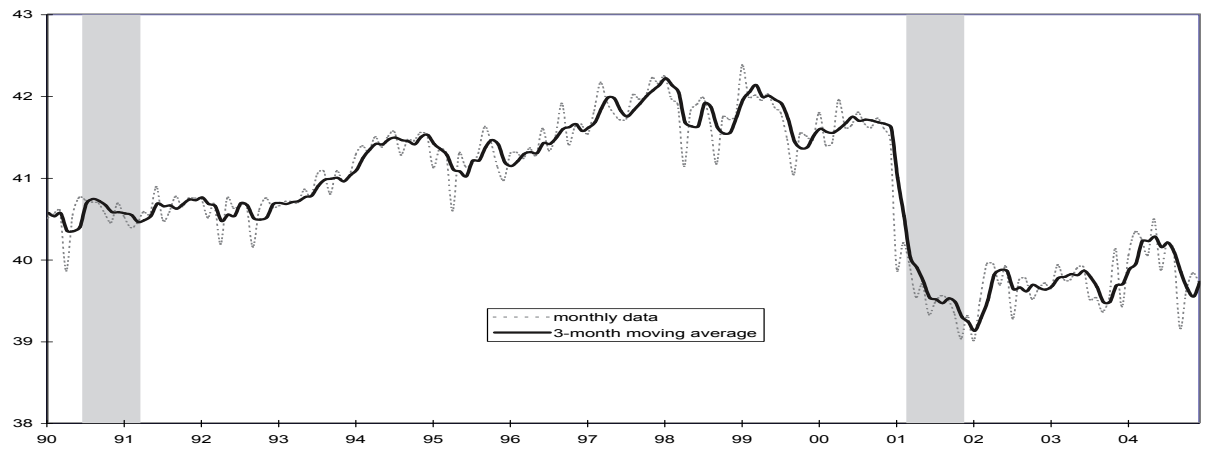
**Nonagricultural
Employment**
(thousands,
Seasonally Adjusted)



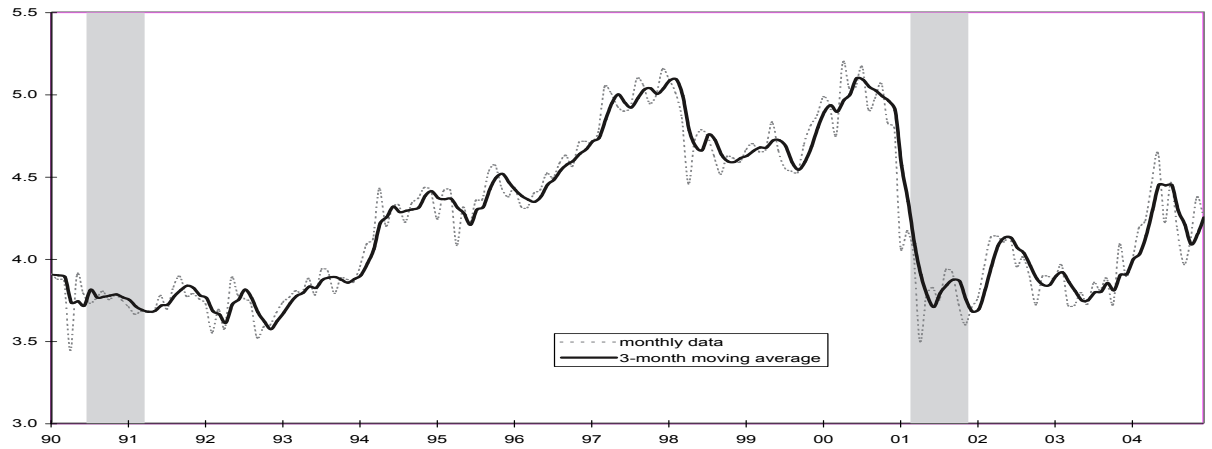
**Manufacturing
Employment**
(thousands,
Seasonally Adjusted)



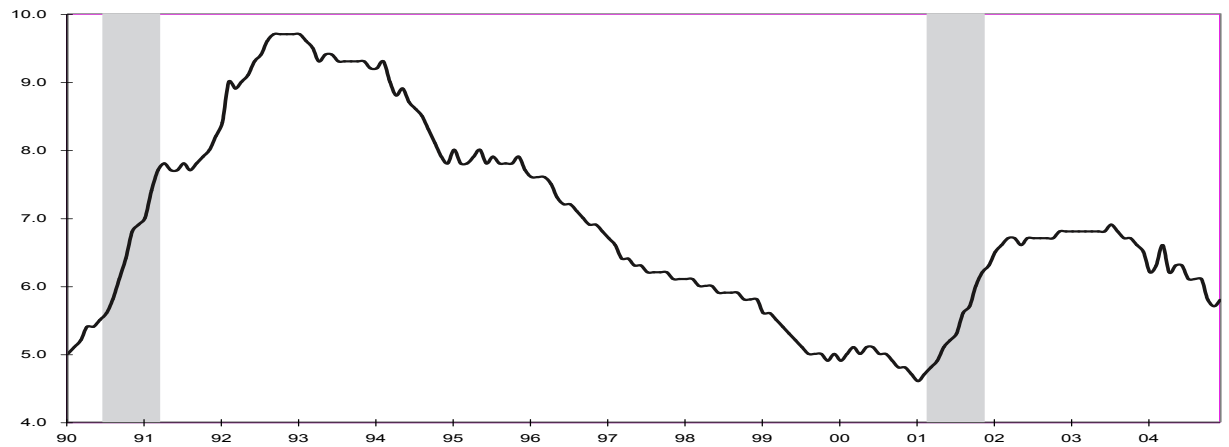
Average
Weekly Hours,
Manufacturing
(Seasonally Adjusted)



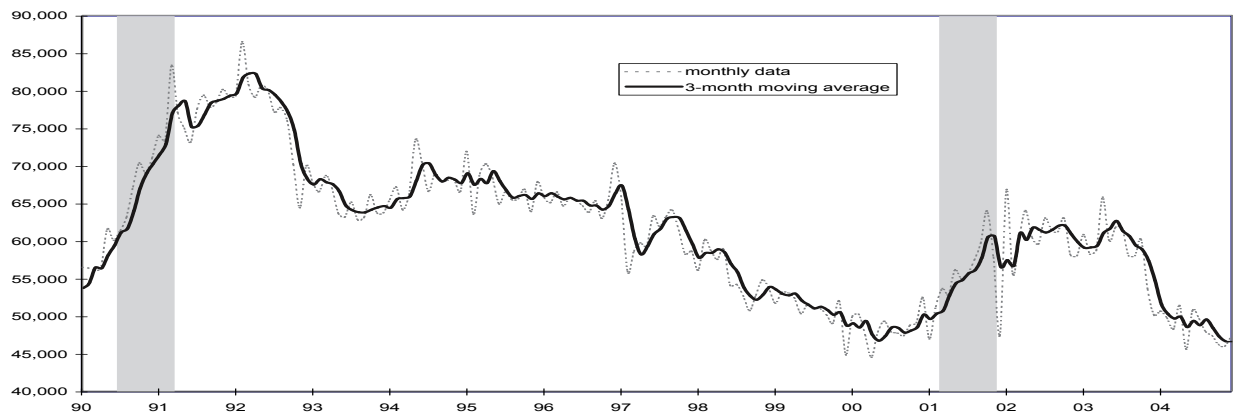
Average
Overtime Hours,
Manufacturing
(Seasonally Adjusted)



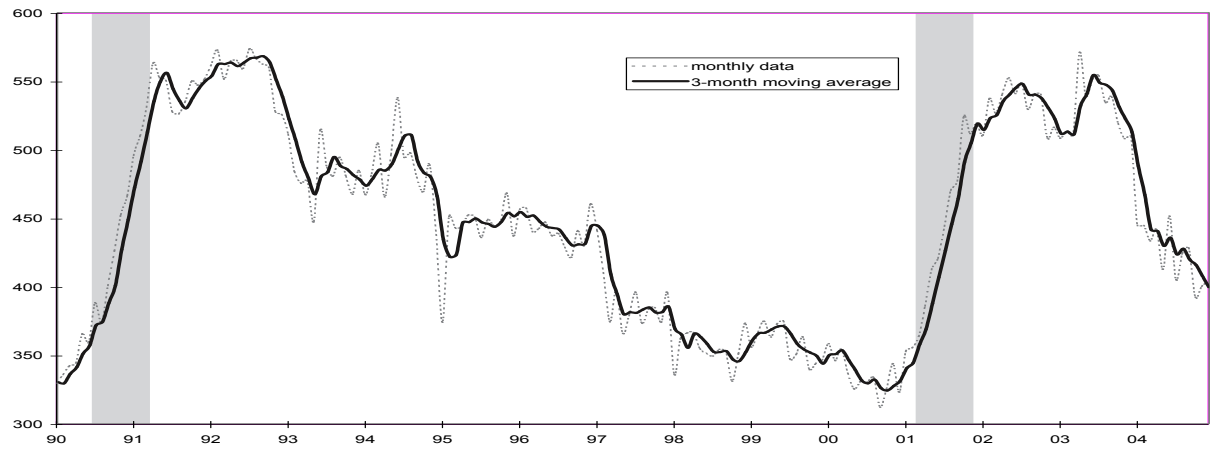
Unemployment
Rate
(Percent)



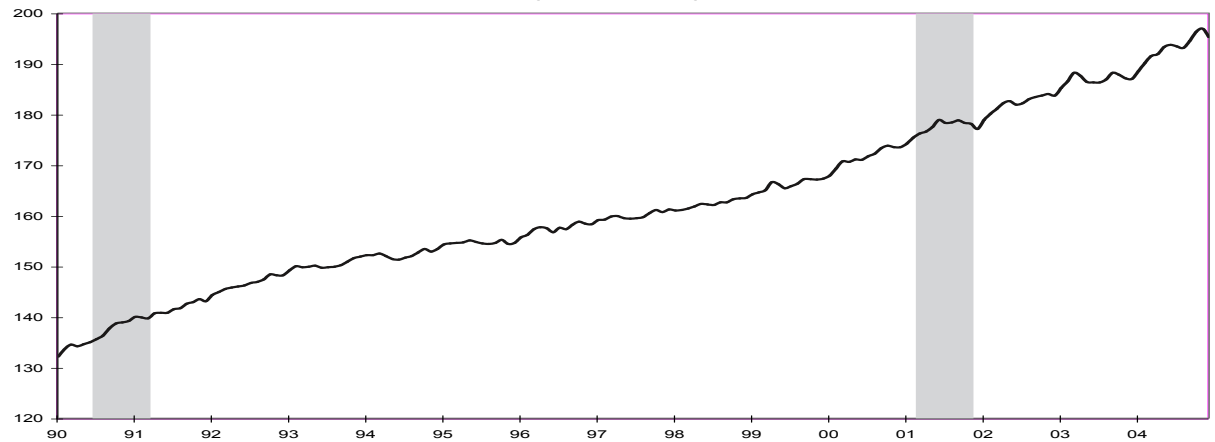
Initial &
Transitional
Claims for
Unemployment
Insurance
(Weekly Average,
Seasonally Adjusted)



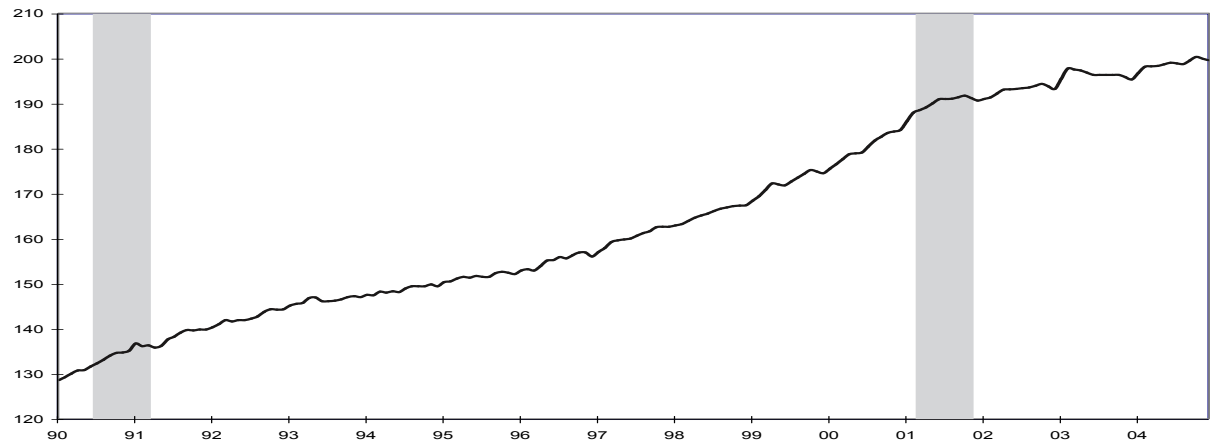
Unemployment,
Average Weeks
Claimed
(thousands,
Seasonally Adjusted)



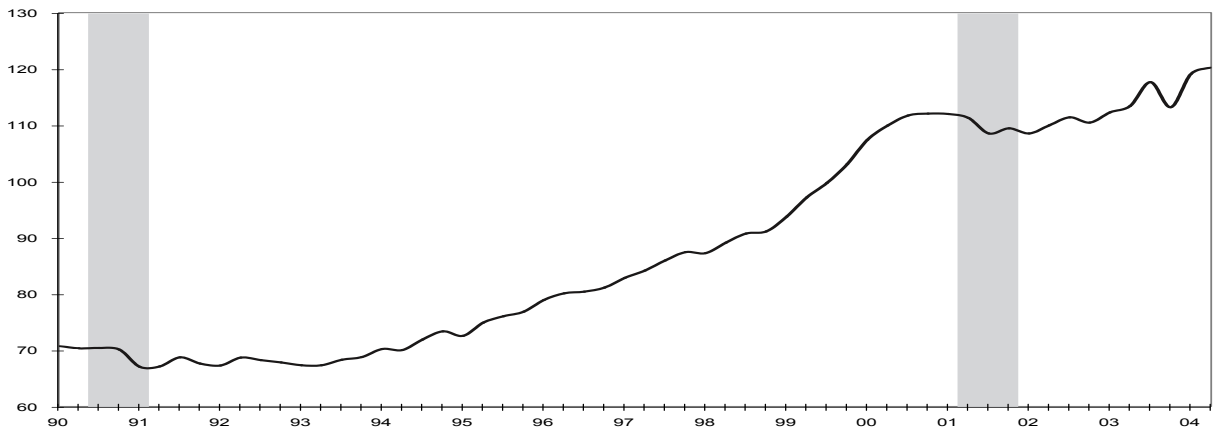
Consumer
Price Index,
Los Angeles
(1982-84=100)



Consumer
Price Index,
San Francisco
(1982-84=100)

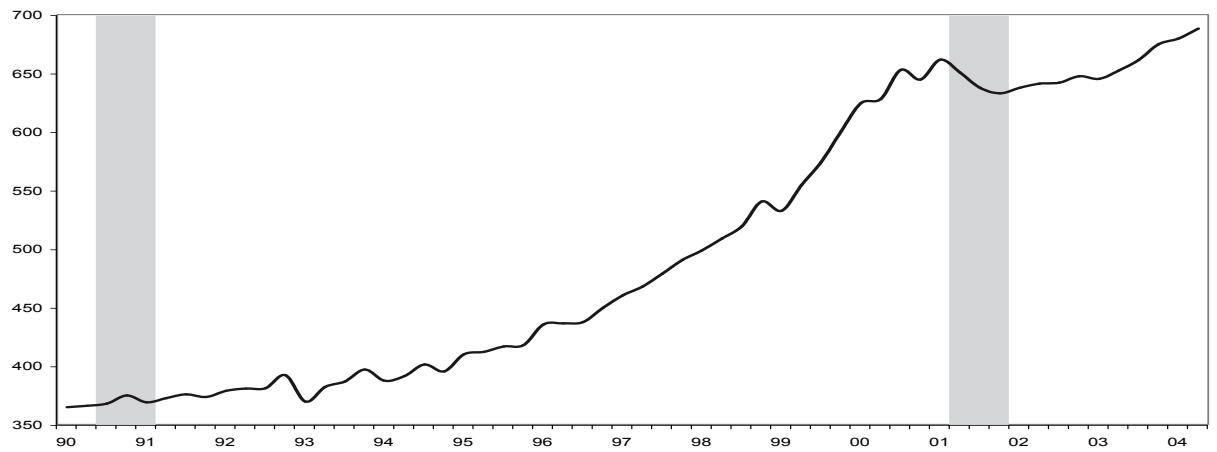


Taxable Sales
(Dollars in billions,
Seasonally Adjusted)



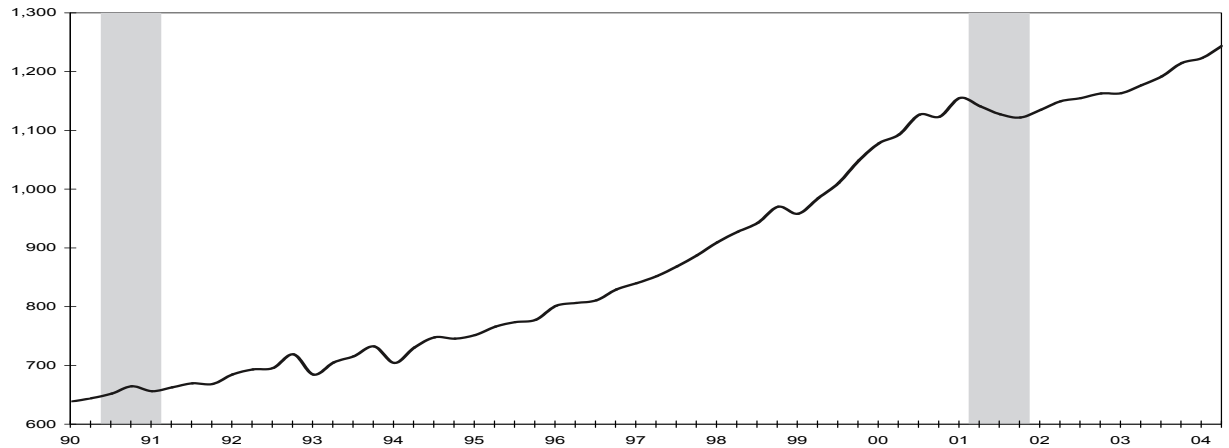
Wages and Salaries

(Dollars in billions, Seasonally Adjusted)



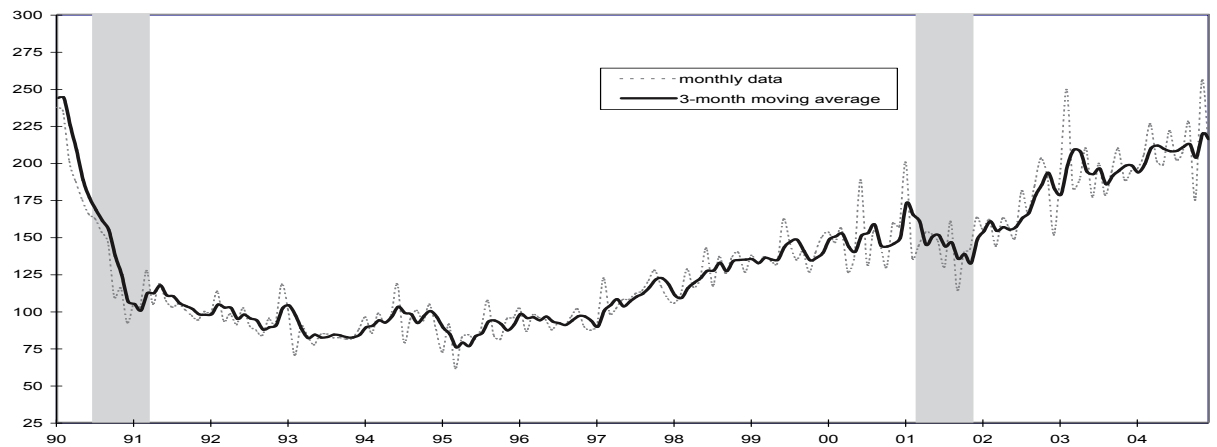
Personal Income

(Dollars in billions, Seasonally Adjusted)



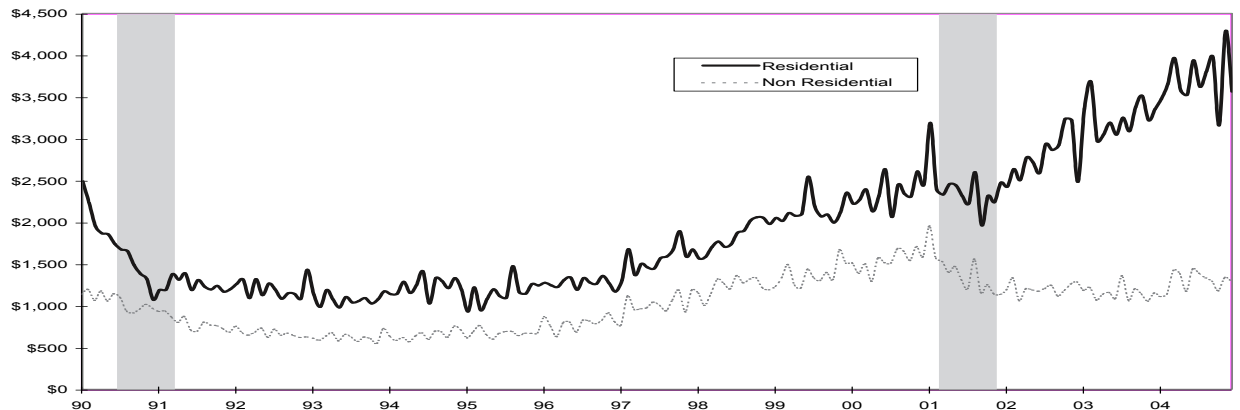
New Housing Units Authorized By Building Permits

(thousands, Seasonally Adjusted at Annual Rate)

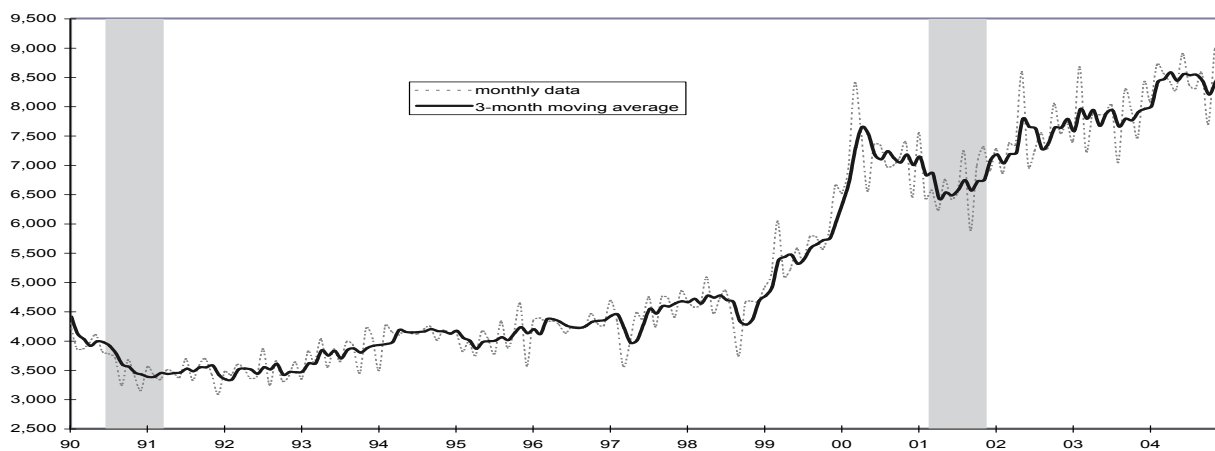


Residential & Nonresidential Building Permit Valuation

(Dollars in millions, Seasonally Adjusted)



New Business Incorporations (Seasonally Adjusted)



BUSINESS CYCLES

REFERENCE DATES OF UNITED STATES BUSINESS CYCLES, 1854-2001

Initial Trough		Peak		Terminal Trough		Expansion (months)	Contraction (months)	Total (months)
Dec.	1854	June	1857	Dec.	1858	30	18	48
Dec.	1858	Oct.	1860	June	1861	22	8	30
June	1861	April	1865	Dec.	1867	46	32	78
Dec.	1867	June	1869	Dec.	1870	18	18	36
Dec.	1870	Oct.	1873	March	1879	34	65	99
March	1879	March	1882	May	1885	36	38	74
May	1885	March	1887	April	1888	22	13	35
April	1888	July	1890	May	1891	27	10	37
May	1891	Jan.	1893	June	1894	20	17	37
June	1894	Dec.	1895	June	1897	18	18	36
June	1897	June	1899	Dec.	1900	24	18	42
Dec.	1900	Sept.	1902	Aug.	1904	21	23	44
Aug.	1904	May	1907	June	1908	33	13	46
June	1908	Jan.	1910	Jan.	1912	19	24	43
Jan.	1912	Jan.	1913	Dec.	1914	12	23	35
Dec.	1914	Aug.	1918	March	1919	44	7	51
March	1919	Jan.	1920	July	1921	10	18	28
July	1921	May	1923	July	1924	22	14	36
July	1924	Oct.	1926	Nov.	1927	27	13	40
Nov.	1927	Aug.	1929	March	1933	21	43	64
March	1933	May	1937	June	1938	50	13	63
June	1938	Feb.	1945	Oct.	1945	80	8	88
Oct.	1945	Nov.	1948	Oct.	1949	37	11	48
Oct.	1949	July	1953	May	1954	45	10	55
May	1954	Aug.	1957	April	1958	39	8	47
April	1958	April	1960	Feb.	1961	24	10	34
Feb.	1961	Dec.	1969	Nov.	1970	106	11	117
Nov.	1970	Nov.	1973	March	1975	36	16	52
March	1975	Jan.	1980	July	1980	58	6	64
July	1980	July	1981	Nov.	1982	12	16	28
Nov.	1982	July	1990	March	1991	92	8	100
March	1991	March	2001	Nov.	2001	120	8	128

■ CHRONOLOGY

The following summary lists economic, political, and natural developments which have influenced California economic indicators, and may account for unusual movements in the series. Appraisal of the charts will be facilitated in many cases by taking into consideration those factors which may be contributing to temporary directional changes in business activity which are not indicative of significant changes in the economic situation of the State. In addition, major national and international events of general interest have also been included. A similar summary of events dating back to 1956 is available at the Department's internet home page at: www.dof.ca.gov

2001

April 18	Federal funds rate reduced from 5.0 percent to 4.5 percent. Discount rate reduced from 4.5 percent to 4.0 percent.
April 23	A Tosco refinery explosion pushed gasoline prices to near record highs.
April 24	Standard & Poors lowered California's bond rating from AA to A+
April 27	GDP grew at an annual rate of 2 percent in the first quarter.
May 7–8	California hit by rolling blackouts.
May 15	Federal funds rate reduced from 4.5 percent to 4.0 percent. Discount rate reduced from 4.0 percent to 3.5 percent.
June 7	Federal tax cut was signed into law.
June 18	The Federal Energy Regulatory Commission adopted a price "mitigation" plan designed to reduce spikes in wholesale electricity prices in California and other Western states.
June 27	Federal funds rate reduced from 4.00 percent to 3.75 percent. Discount rate reduced from 3.50 percent to 3.25 percent.
June 29	First quarter GDP growth rate revised to 1.2 percent.
August 21	Federal funds rate reduced from 3.75 percent to 3.50 percent. Discount rate reduced from 3.25 percent to 3.00 percent.
August 29	Second quarter GDP grew at a 0.2 percent annual rate. Discount rate reduced from 3.25 percent to 3.00 percent.
August 29	Second quarter GDP grew at a 0.2 percent annual rate.
September 11	Terrorists attack World Trade Center and the Pentagon.
September 11–14	U.S. stock trading halts.
September 17	Federal funds rate reduced from 3.50 percent to 3.00 percent. Discount rate reduced from 3.00 percent to 2.50 percent. Dow Jones Industrials record biggest point drop in history, falling 684.41.
October 2	Federal funds rate reduced from 3.00 percent to 2.50 percent. Discount rate reduced from 2.50 percent to 2.00 percent.
October 26	Lockheed Martin Corporation awarded defense contract.
November 6	Federal funds rate reduced from 2.50 percent to 2.00 percent. Discount rate reduced from 2.00 percent to 1.50 percent.
November 26	Recession in the US began in March 2001, according to NBER.
December 2	Enron filed for bankruptcy protection.
December 11	Federal funds rate reduced from 2.00 percent to 1.75 percent. Discount rate reduced from 1.50 percent to 1.25 percent. China becomes WTO member.

December 21 GDP down 1.3 percent in Q3.
December 31 Markets fall for a second straight year for the first time since 1974.

2002

January 1 Taiwan becomes WTO member.
 OPEC to cut oil production by 6.5 percent.
 Euro becomes legal tender in 12 European countries.

January 6 Unemployment insurance benefits increased in California.

February 28 GDP up 1.4 percent in Q4.

March 9 California's "Job Creation and Worker Assistance Act of 2002" was signed into law that provides for temporary extended unemployment compensation.

March 28 GDP up 1.7 percent in Q4.

April 25 Security and Exchange Commission launched a formal investigation of Wall Street analysts' conflicts of interest.

May 13 President Bush signed a 10-year, \$190 billion farm bill that promises to expand subsidies to growers.

June 27 GDP up 6.1 percent in Q1.

July 5 Foreign direct investment flows to developed countries declined by 56% in 2001, with the United States seeing the largest fall off to its lowest level since 1997.

July 8 Intel launches its Itanium 2 chip.

July 10 President Bush called for stiffer penalties to eradicate corporate fraud.

July 15 Pfizer to buy Pharmacia.

July 16 The dollar sank against the euro for the first time in more than two years.
 Intel to eliminate 4,000 jobs.

July 21 WorldCom filed for bankruptcy protection.

July 22 The Dow Jones industrial average sank to its lowest level in nearly four years.
 Both the Nasdaq and S&P 500 are at their lowest levels since the first half of 1997.

July 30 President Bush signed into law the Public Company Accounting Reform and Investor Protection Act.

July 31 GDP growth slowed to 1.1 percent in Q2 from revised 5.0 percent in Q1.
 Last year's data was also revised indicating that the economy shrank in each of the first three quarters.
 Venture capital investments hit four-year low.

August 8 IMF signed an emergency loan to Brazil.

August 11 U.S. Airways filed for bankruptcy.

August 20 The U.S. trade deficit narrowed in June, following two straight record monthly deficits.

September 27 –October 9 Cargo operations at 29 West Coast ports ground to a halt when terminal operators locked out unionized workers.

November 6 Federal funds rate reduced from 1.75 percent to 1.25 percent.
 Discount rate reduced from 1.25 percent to 0.75 percent.

December 9 United Airlines filed for bankruptcy protection.

December 19 Standard & Poor's lowered California's bond rating to an A from an A+.

2003

February 10	Moody's lowered California's bond rating to A2 from A1.
February 14–17	A major snowstorm hit the Middle Atlantic and Eastern states.
February 26	Doctors in Hong Kong report the first case of a flu-type virus "Atypical Pneumonia" now more commonly known as Severe Acute Respiratory Syndrome (SARS).
March 20	Operation Iraqi Freedom begins.
April 9	Baghdad falls and Iraqis and American troops topple statue of Saddam Hussein.
April 14	President Bush declares conclusion of major combat operations in Iraq.
June 25	Federal funds rate reduced from 1.25 percent to 1 percent, the lowest rate in 45 years.
June 26	GDP up 1.4 percent in Q1.
July 17	The US recession ended in November 2001, according to NBER.
July 24	S&P lowered California's bond rating from "A" to "BBB".
July 25	United States Treasury begins mailing \$400 per child tax rebate checks.
August 2	Governor Gray Davis signs the 2003-04 state budget bill.
August 4	Moody's lowered California's bond rating from A2 to A3.
August 28	GDP grew at a revised 3.1 percent annual rate in the 2nd quarter.
September 3	Light vehicle sales in the U.S. reach 19.0 million in August, the second best monthly rate ever.
October 21	Wildfires breakout in Southern California, eventually burning 743,000 acres and destroying over 3,500 homes.
October 30	GDP grew by 7.2 percent, its fastest rate since 1984.
December 4	President Bush ends steel tariffs.
December 12	Dow Jones Industrial average closed above 10,000 for the first time since May 24, 2002.
December 13	Saddam Hussein captured by American troops.
December 23	Final report shows GDP grew by 8.2 percent in the third quarter, its fastest rate since 1984.
December 24	U.S. confirms first case of "mad cow" disease.

2004

February 10	Unexpected cut in OPEC quota and cold weather contribute to higher oil prices.
February 11	Dow Jones Industrials closed at highest level in more than 2½ years.
March 25	Fourth quarter GDP rose 4.1 percent.
April 30	International oil prices hit a 3½ year high.
May 21	Moody's raised California's credit rating from "Baa1" to "A3".
May 27	First quarter GDP grew at a 4.4 percent annual rate.
June 30	Federal funds rate increased by 25 basis points bringing the rate up to 1.25 percent. It is over four years since the Fed last tightened rates.
August 9	Fitch removes California from Rating Watch Negative.
August 10	Federal funds rate raised from 1.25 percent to 1.50 percent.
August 24	S&P raised California's credit rating from "BBB" to "A".

August 27	Second quarter GDP grew at a 2.8 percent annual rate.
Mid-August	Hurricane Charley hits Florida
September	Three powerful hurricanes (Frances, Ivan, and Jeanne) hit Florida and some neighboring states.
September 21	Federal funds rate raised from 1.50 percent to 1.75 percent.
October 29	GDP grew at a 3.7 percent rate in the third quarter.
November 10	Federal funds rate raised from 1.75 percent to 2.00 percent.
December 14	Federal funds rate raised from 2.00 percent to 2.25 percent.
December 22	GDP grew at a 4.0 percent annual rate in the third quarter.
December 26	A magnitude 9.0 earthquake—the largest in 40 years—struck the northern Indonesian island of Sumatra, triggering a tsunami that killed tens of thousands of people in more than 11 countries.

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